

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION  
PUBLIC DISCLOSURE**

The Security State Bank of Pecos  
Name of Institution  
Pecos  
City  
Texas  
State  
Mario E. Fuentes  
Examiner-in-Charge

115 W. Third/ P.O. Drawer 2037  
Street  
Reeves  
County  
79772  
Zip Code

**Table Of Contents**

	Page
GENERAL INFORMATION .....	1

## CRA PERFORMANCE ASSESSMENT

### GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Security State Bank of Pecos, Pecos, Texas**, prepared by the **Federal Reserve Bank of Dallas, Dallas, Texas**, the institution's supervisory agency, as of August 26, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

The bank's record of lending to low- and moderate-income individuals demonstrates its efforts to meet the needs of the community. The review of transactions revealed that 71 percent of unsecured consumer loans were made to low- and moderate-income residents. Overall, the bank's record of meeting the needs of the community is satisfactory given the size of the community and available lending opportunities. The institution's CRA rating as of the previous assessment, conducted as of October 17, 1993, was Needs Improvement.

*The following table indicates the performance level of The Security State Bank of Pecos, Pecos, Texas, with respect to each of the five performance criteria.*

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>The Security State Bank of Pecos, Pecos, Texas</u> PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No Complaints were received since the last examination.		

**DESCRIPTION OF INSTITUTION**

Security State Bank is a locally-owned entity in Pecos, Texas, with its main office located at 113 West Third Street. As of March 31, 1996, the bank had total assets of approximately \$70 million, a slight increase over the same period in 1995. At this time period, loans represented almost 33 percent of deposits. The bank's primary lending emphasis continues to be agricultural lending, commercial/industrial lending, and consumer lending, accounting for 36.45, 23.59, and 17.48 percent of its portfolio, respectively. The bank has experienced a slight increase in total loans when compared to this same period last year. However, agricultural loans have decreased significantly (35 percent). Management indicated the decrease could be attributed to the drought the area has been experiencing. According to bank personnel, the lack of rain has especially affected the bank's agriculture lending, but the effects can also be seen on other borrowings as well.

The bank's ability to meet various community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, or the lending opportunities available in the institution's assessment area, but is somewhat affected by the economic factors present in the assessment area.

The asset distribution by loan type is as follows as of March 31, 1996:

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 482	2.32
Residential 1-4	1,739	8.38
Multifamily	173	.83
Commercial	1,811	8.73
Agricultural	60	2.22
Total Real Estate	4,665	22.48
Consumer:		
Open-end credit	0	0.00
All other	3,628	17.48
Commercial and Industrial	4,895	23.59
Agricultural	7,564	36.45
State and Political Obligations	0	0.00
Other	0	0.00
Total	\$20,752	100.00%

## DESCRIPTION OF REEVES COUNTY

The bank's assessment area has been defined as Reeves County. Pecos, Texas, is the county seat and is the largest town in the county. It is located 76 miles west of Midland/Odessa, and 82 miles east of Carlsbad, New Mexico. According to the 1990 census bureau data, the population of Reeves County is 15,852.

As the county seat of Reeves County, Pecos is known for its cantaloupes. In addition, the area's agricultural products include cotton, feed grains, cattle, hogs, vegetables, and mill production. Other major industries in Pecos consist of a major food processing plant, a sulphur mine, a battery recycling center, and a transportation testing facility. Tourism is increasingly growing as a major industry, largely due to the world famous cantaloupes. Pecos has the distinction of hosting the world's first rodeo in 1883. Furthermore, many tourists visit the area to see the West of the Pecos Museum. According to information received from the chamber of commerce, the museum is housed in the Orient Hotel and the Old #11 Saloon and contains over 50 rooms of exhibits displaying western history dating from the 1800's.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:****LOAN TO DEPOSIT RATIO**

The institution's loan-to-deposit ratio is reasonable in light of its performance context, which includes the institution's capacity to lend in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area.

The bank's average loan-to-deposit ratio since the last consumer affairs examination is 31.57 percent. As of March 31, 1996, the bank's total loans represented 33.02 percent of total deposits. The unadjusted national peer ratio for the same period was 60.57 percent. The local peer bank with assets of almost \$51 million has a ratio of 61.20 percent. Bank management indicated the competition's higher ratio could be attributed to more real estate lending which that bank conducted outside Pecos. Further, management felt the bank also might be participating in loans with other banks. Ratios of banks in surrounding counties range from 38 to 71 percent. However, the banks with the higher ratios were located in counties with only one bank. Management indicated a soft market compounded with the recent drought has reduced the availability of loans. Although the loan-to-deposit ratio is low, historical data indicates that the ratios of both banks have remained consistent over the past three years. Based on that historical performance, the bank's loan to deposit ratio is considered reasonable. Also, discussions with a representative of a local business and labor group indicated the current economy does not lend itself to high loan demand. Furthermore, bank management indicated the lending opportunities in the area are "soft".

**LENDING IN ASSESSMENT AREA**

A review of sampled loans originated during the period of January 1, 1996, through July 31, 1996, revealed a significant majority of the loans made were to persons or entities inside the assessment area and the institution's performance is solid. The examiner analysis encompassed a review of 260 loans (including 108 consumer - unsecured, 86 consumer - motor vehicle, and 66 small farm loans) to determine the bank's lending inside and outside its assessment area. According to the examiner's calculations, 89 percent of motor vehicle loans, 98 percent of unsecured loans, and 83 percent of small farm loans (an average of 90 percent of the sampled loans) originated since the last assessment were within the bank's assessment area. According to bank management, several of the loans made for small farms were made on properties lying in the county, however, the mailing addresses of the applicants might be outside the county. Therefore, adjustments were made to account for those loans with addresses which were different from the actual location of the property securing the loans.

## LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

A review of the bank's distribution of loans in its assessment area by small farm revenues and borrower income was performed on the sampled loans. The unavailability of income information for small farms made loan distribution among the various small farms unfeasible. Of the motor vehicle and unsecured loans sampled, 42 and 71 percent, respectively, were made to low- and moderate-income borrowers. The percentage of unsecured loans to low- and moderate-income persons was considered significant and indicated a commitment on the bank's part to serve the credit needs of those in its assessment area.

The consumer loan analysis consisted of analyzing borrower income as a percentage of the Texas non-metropolitan median family income. A breakdown by income range for each category is detailed below.

TEXAS NON-METROPOLITAN MEDIAN FAMILY INCOME \$28,700		
INCOME CATEGORY	INCOME RANGE AS A	UPPER LIMIT OF
LOW-INCOME	0-50%	\$14,349
MODERATE-INCOME	50-80%	\$22,959
MIDDLE-INCOME	80-120%	\$34,439
UPPER-INCOME	120% and over	over \$34,439

An analysis of the loan distribution among the various income levels is detailed on the following chart and revealed an excellent distribution of loans.

Loan Sample by Income Level				
	Motor Vehicle Loans		Unsecured Loans	
INCOME CATEGORY	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS	NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS
LOW-INCOME	11	23.00	28	45.00
MOD-INCOME	9	19.00	16	25.00
MID-INCOME	14	30.00	9	15.00
UPP-INCOME	13	28.00	9	15.00
TOTAL *	47	100.00	62	100.00

\*Total excludes seven motor vehicle loans for which income information was unavailable and 32 loans outside of the bank's assessment. The total also excludes three unsecured loans for which income information was unavailable and 43 loans which were outside of the bank's assessment.

## GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's assessment area is composed of five block numbering areas ("BNAs"), four moderate income and one upper income. The distribution of credit within the assessment area, by geography, of the total loans sampled, revealed that of small farm loans, 78 percent were in moderate-income BNAs and 22 percent were in the one upper-income BNA. Sixty-seven percent of motor vehicle loans were originated in moderate-income BNAs and 33 percent were in the one upper-income BNA.

A review of the unsecured loans indicated 71 percent were originated in moderate-income BNAs and 29 percent were in the one upper-income BNA. In all categories of loans reviewed, the majority of the bank's loans were made in the moderate-income BNAs in its assessment area as the following chart indicates.



Loan Sample by Census Tract						
	Small Farm Loans		Motor Vehicle Loans		Unsecured Loans	
Income Category	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type	Loans in CT Income Category	Percent of Total Loans by Loan Type
LOW-INCOME	0	0.00	0	0.00	0	0.00
MOD-INCOME	18	78.00	36	67.00	46	71.00
MID-INCOME	0	0.00	0	0.00	0	0.00
UPP-INCOME	5	22.00	18	33.00	19	29.00
TOTAL *	23	100.00	54	100.00	65	100.00

\*Total excludes 34 small farm loans, 25 motor vehicle loans, and 42 unsecured loans for which actual BNA numbers could not be determined (P.O. Boxes or Rural Route addresses were provided). The total also excludes six small farm loans, seven motor vehicle loans and one unsecured loan that was made outside of the bank's assessment area.

## RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.